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**EFFECTIVENESS OF SERVICE DELIVERY SYSTEM OF
ELECTRONIC SALES COMPANIES –
A STUDY OF STRUCTURAL LEVEL AND MANAGER'S ORIGIN**

BY

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ABSTRAK

Tujuan utama kajian ini ialah untuk mengenalpasti kesan daripada segi dua ciri syarikat penjualan elektronik ke atas sistem servis penghantaran. Dua ciri yang dikaji ialah tempat asal pengurus (sama ada tempatan atau luar negeri) dan bilangan tahap diantara pengurus besar dan orang yang paling hampir dengan pelanggan.

Biasanya, kesan sistem servis penghantaran boleh diukur dari segi keuntungan tetapi keuntungan ini tidak dapat disahkan dengan tepat (Christopher, 1983). Oleh sebab itu, kesan tersebut bolehlah di tukar ganti melalui penukuran kualiti servis.

Kesan servis yang ditentukan dari dalam organisasi dengan melihat servis yang diberikan oleh syarikat jualan sementara kualiti servis dilihat dari perspektif pelanggan.

Data mengenai atribut ini diperolehi dari syarikat penjual melalui soal-selidik yang diposkan. Tahap kualiti servis syarikat ini telah diukur dengan menggunakan alat kualiti servis yang telah diubahsuai dan diperolehi dari pelanggan syarikat penjual itu. Alat kualiti servis yang telah diubahsuai telah diperolehi daripada kajian Dabholkar, Thorpe dan Rentz (1996) et al. Alat ini berasaskan alat kualiti servis, SERVQUAL, oleh Parasuraman dll. (1990).

Unit analisa kajian ini adalah syarikat penjual barangan elektronik yang berurusan dengan pengeluaran barangan elektronik di negeri Pulau Pinang.

Hasil penyelidikan ini menunjukkan bahawa bilangan tahap ruang tidak mempengaruhi keberkesanan sistem penghantaran. Sebaliknya, tempat asal pengurus (sama ada luar negeri atau tempatan) banyak mempengaruhi keberkesanan sistem. Kajian ini juga mendapati bahawa organisasi penjual yang diuruskan oleh pengurus luar negeri mempunyai sistem servis penghantaran yang lebih baik daripada organisasi yang diuruskan oleh pengurus tempatan.

Dari analisis regresi, didapati bahawa organisasi penjual yang diurus oleh pengurus luar negeri dan bilangan tahap yang lebih kecil menunjukkan sistem servis penghantaran yang lebih berkesan.

Implikasi kajian dari segi pengurusan ialah pengurus tempatan hendaklah berusaha untuk mencapai tahap pencapaian pengurus luar negeri dari segi pengurusan dan mereka bentuk sistem servis penghantaran yang lebih berkesan. Lebih lagi, kajian empirik (Shmenner, 1995) menunjukkan bahawa organisasi yang diurus dengan baik, dengan hierarki yang rendah sememangnya mempunyai sistem komunikasi dalaman yang tinggi.

Dari sudut teori, kajian ini memang menunjukkan betapa pentingnya komunikasi yang berkesan di dalam meningkatkan kualiti servis. Tambahan lagi, kajian ini menyokong hasil pelbagai kajian perbandingan di mana pengaruh budaya menyumbang kepada keberkesanan pengurus.

ABSTRACT

The main purpose of this study was to determine the effect of two of the attributes of electronic sales companies on the effectiveness of the service delivery system. The two attributes studied were the origin of managers; local or foreign, and the number of hierarchical levels between the top management of the sales organization and the first-line contact persons.

Effectiveness of the service delivery system are usually quantified in terms of revenue, however it was not possible to ascertain the exact revenue (Christopher, 1983) of the companies generated from the effectiveness of the system. Thus it was necessary to use a surrogate measurement for the effectiveness via the service quality measure.

Effectiveness was determined from within the organization by looking at the services that the sales companies provide, whereas service quality looked at this same effectiveness but from the customers' viewpoint.

The two attributes were solicited from the sales companies by means of mail questionnaires and the service quality levels for each of these companies were obtained by means of modified service quality instrument obtained from the customers of these sales companies. The modified service quality instrument was adapted from an earlier study by Dabholkar, Thorpe, and Rentz, (1996) which itself was based on the SERVQUAL instrument by Parasuraman et al. (1990).

The unit of analysis of the study were the electronic sales companies having dealings with the electronic goods manufacturers in the state of Penang.

The result of the research indicated that the hierarchical levels by themselves do not affect the effectiveness of the delivery system but the latter is heavily influenced by the origin of manager; foreign or local. It was also found that foreign manager-managed sales organizations tend to have more effective system than that managed by local managers.

From the regression analysis, it was found that sales companies managed by foreign managers and with less number of hierarchical levels are most effective in their delivery.

The implications of this research on practical management are that local managers still need to catch up with their foreign counterparts in terms of their ability to design and manage more effective service delivery system. Furthermore, it can be said that the empirical observation (Schmenner, 1995) that a well-managed organization with a flat hierarchy does provide better internal communication.

From a theoretical stand point, the study does prove the importance of effective communication in providing quality service levels. Furthermore, the study supports the findings of various comparative studies whereby cultural influences are contributory to effectiveness of managers.

Chapter 1

INTRODUCTION

1.1 Overview

Effective service delivery system is about making products or merchandise available to the customers at the right time and at the right place. Besides these ideals, it also would mean the ability to meet customer's needs every time. This will lead to pleasant the "moment of truth" or service encounter that is illusive these days in a competitive and pressured environment.

Though many companies realize that quality is a competitive tool, not many of them have clearly defined policy in applying it to the service delivery system. Unless management can quantify the benefits and cost of the service level it provides, policies towards the delivery system remains ineffectual. Thus it is the aim of this study to investigate the significance of the organizational attributes that determines the policies of the service delivery system.

1.2 Introduction

In recent years, companies have become convinced of the strategic benefits of quality (Phillips, Chang, and Buzzell, 1983). As a result, many large companies have created quality-measurement programs that attempt to relate product and service attributes to customer evaluations of quality (Hauser and Clausing, 1988; Zeithaml, Parasuraman, and Berry, 1990). Similarly in the electronic industry, the finished goods manufacturers are not the only ones involved in the service quality programs but also the marketers of the electronic components to these manufacturers. They are also heavily involved in service quality to capture the benefits of quality. They use service

to be different; they use service to increase productivity; they use service to earn the customers' loyalty; they use service to fan positive word-of-mouth advertising; they use service to seek some shelter from price competition (Parasuraman et al., 1990). In their strive to out sell one another, besides the advantage of superior service quality, many other strategies have been utilized to give each company the competitive edge. Technology superiority, price leadership, smart partnerships, win-win strategies and a whole host of marketing strategies have been implemented to give the extra winning edge in order to capture more market share.

The catchword that is frequently used in the electronics sales industries nowadays is Total Customer Satisfaction. Every sales company uses a form of this type of program where customer satisfaction is placed on the priority list other than product or price superiority. Their aim would be to meet every need of the customer with their product and services. Due to this pandering to the customer's every needs, programs like Just-In-Time (JIT), Stockless Production, Built-to-Order (BTO), Demand-Pull (DP), and other new optimal stocking programs were able to be achieved by major manufacturers of electronics goods. There exist a relationship between perceived service quality, customer loyalty, and switching cost (Ruttyer, Wetzels, and Bloemer, 1998).

The belief that a satisfied customer will remain a loyal customer continues to drive component marketer to look into improving their service quality to meet the banner of Total Customer Satisfaction. All these programs were launched with huge investment in terms of logistics, management information system, staff training, and motivational gimmicks like stickers, buttons, and other paraphernalia to advocate and remind the

need to improve customer service. These programs had one central theme running through them, that is, to improve perceived service quality in order to achieve the following benefits:

- 1) Loyal customers with repeat buys
- 2) Better customer service
- 3) Differentiation of company image
- 4) Competitive advantage marketing tool
- 5) Improved productivity
- 6) Ultimately, to increase market share and profit

A common phenomenon occurring in the electronics sales environment is that the relationship between the customers and the suppliers has often been on a roller coaster from one of close cooperation to one of outright argument. The level of the relationship could have their root in the levels at which the following criteria are achieved. The criteria that determines these customer-supplier relationships are (Parasuraman et al., 1990):

- 1) Reliability of services
- 2) Responsiveness of the first-line contact persons
- 3) Ability to communicate and understand each other
- 4) Tangible features of the company physical facilities

The above criteria determine the service level of the company towards their customer. Internally, the organizational structure and the motivational mechanisms are just as important than the externally visible physical environment and contact personnel for the success of the service quality.

1.3 Defining Key Concepts

Within the scope of this study, there will be a number of concepts put forward and

mentioned. Some of these concepts have wide definition, which are applicable to various other fields of study. However the definition to these terms are confined to the following statements which are applicable to the understanding of this study.

Service Delivery System

A complex of activities involving all areas of the business which combine to deliver and invoice the company's products in a fashion that is perceived as satisfactory by the customer and which advance the company's objectives (LaLonde & Zinszer, 1976).

Total Customer Satisfaction

The activity that place emphasis on the escalating and improvement of the perception of customers against their expectation of the services provided by a company generated through the satisfaction of customer's needs and wants. This activity serves to link processes culminating in purchase and consumption with postpurchase phenomena such as attitude change, repeat purchase, and brand loyalty (Churchill and Surprenant, 1982).

Organizational Structure

An organizational structure (Robbins,1996) defines how job tasks are formally divided, grouped, and coordinated. For this study, the structure generally refers to the number of vertical levels, the degree of span of control, centralization, and formalization.

Organizational Culture

Organizational culture refers to a system of shared meaning or values held by

members of an organization that distinguishes the organization from other organization. In this study, the main emphasis is that portion of the organizational culture due to the influence of the national culture which other research (Robbins, 1996) have shown to be having greater impact on employees than does their organization culture.

1.4 Background of Malaysian Electronic Industry

Malaysia's electronics industry had its beginnings in the 1960s, with the establishment of import-substitution manufacturing projects that focused on electronic equipment such as household appliances. The domestic market, with a population of under 20 million then, was not sufficiently large to support a viable local production for internal consumption. The industry took off in the 1970s when the Malaysian government shifted emphasis from an import-substitution to an export-oriented strategy to promote the country's economic development.

At that time, structural changes were occurring in electronic equipment production in Europe, Japan, and North America. These changes led to the relocation of lower-valued-added operations to cost-competitive production centers overseas. Malaysia offered an ideal location for companies. There was a stable political environment and conducive investment environment climate which included schemes such as a 10-year pioneer status, low-cost labor, and the establishment of Free Industrial Zones and Licensed Manufacturing Warehouses. Nowadays, the structure of the Malaysian electronics industry is made up of electronic components (particularly semiconductor companies), consumer electronic, data processing, and communications equipment manufacturers. The other factors contributing to the conducive environment for

electronics industry are increased linkages between component suppliers and equipment manufacturers, with the government providing the lead in local research initiatives. The Malaysian electronics industry is expected to continue making significant contributions towards exports, employment, and value-added manufacturing in the future.

However, in 1998 the Malaysian economy suffered a sharp contraction, amid the regional economic downturn and local political uncertainties. Gross domestic product (GDP) is expected to decline by more than 6 percent, compared to almost 8 percent growth recorded in 1997. With the imposition of capital controls since late 1998, the local currency has been stable and interest rates have continued to fall. Against this backdrop, the electronic industry have come under even more intense competition both from domestic suppliers and from foreign competition.

1.5 Rationale of Study

According to conventional economic theory, the economic performances and trade patterns of nations can be explained and predicted by using the doctrine of comparative advantage based on factor endowments. With the coming of many foreign companies into Malaysia to set up their operations, they have not only brought with them their endowments such as technical expertise and financial support but also their management styles.

Foreign companies bring with them their value system and organizational culture from their respective countries. "Organizational culture is a framework that guides day-to-day behavior and decision making employees and direct their actions towards

completion of organizational goals” (Stoner, Freeman, Gilbert, 1995). Of course with the local companies that have also been established, the management style would be different due to the different organizational upbringing. Malaysia being a potpourri of many cultures such as the Chinese, Malays, Indians and other minority cultures would bring the influences of these cultures to bear directly on the management styles.

Asian management styles relates rather more to relationship management than to the Western management by objectives (Johansson et al., 1994). Habits unique to each culture are incorporated into their management styles like decision by consensus in the Japanese culture, family-business mentality of the Chinese, and respect for elders in the Malay culture (Asma, 1996). The extent that foreign companies are able to adapt to local management values or local companies adopting foreign management styles depends very much on the outlook of the companies themselves.

In the studies of Joan Woodward and her colleagues in the mid-1960s it was found that technology had an influence on the organizational structure of a company. Depending on the technological complexity of the company, the management levels can either be tall or flat. (Woodward, 1965)

1.6 Problem Statement

The aim of this study is to investigate the relationships of organizational attributes and effectiveness of service delivery systems of electronics sales company within the frame of the Peninsula Malaysia. Specifically, the following two questions would be the center of the study:

- a) Does an organization managed by foreign managers provide more effective service delivery system than their local counterpart?

- b) Does the organization structure influence the effectiveness in the answer to the above question?

1.7 Organization of the Chapters

The study have been segmented into the following chapters which are briefly outlined as follows:

Chapter 1 - Introduction

- provides the introduction to the issue that is being researched and the rationale behind the study. It also includes the definitions of some of the key concepts used in the study to clarify and exact the usage of such concepts during the course of the discussion. The problem statement is outlined in this section to highlight the direction of the research.

Chapter 2 – Literature Review

- provides the literature review where all the variables influencing the problem under study are made known through a comprehensive search into all relevant documents.

Chapter 3 – Theoretical Framework and Research Methodology

- theoretical framework in this chapter illustrates the relationship in the form of the research model for the problem under study. The past theories that have been done in relation to the problem were described in this chapter to relate to the method developed to investigate the problem. The hypotheses were set forth in this chapter after the description of the research model. The chapter also provides the research methodology, which includes the research design, data collection, sample design, and the method of analysis.

Chapter 4 – Result and Analysis

- discusses the result from the data analysis including the profile of respondents and the testing of the hypothesis.

Chapter 5 – Discussion and Implication

- contains the discussion on the meaning of the results and their implications.

Limitations of the research were explained with proposal for future research.

Chapter 2

LITERATURE REVIEW

2.1 Literature Review

The electronics "retail" environment is changing more rapidly than ever before. It is characterized by intensifying competition from both domestic and foreign companies, a spate of mergers and acquisitions, and more sophisticated and demanding customers who have greater expectations related to their consumption experiences (Sellers, 1990; Smith, 1989). Consequently the electronic sales companies must differentiate themselves by meeting the needs of their customers better than the competition. There is a general agreement that a basic retailing strategy for creating competitive advantage is the delivery of high service quality (Berry, 1986; Hummel and Savitt, 1988; Reichheld and Sasser, 1990).

There are many and varied definitions of the term *service* that can be found in various literatures such as:

- A service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product (Kotler, 1994)
- Service deliver a bundle of benefits to the consumer through the experience that is created for that consumer (Bateson, 1991)

Marketing theory and marketing strategy development according to many texts are based on the traditional goods-producing sector marketing activities (Bitner et al., 1994). Due to this development of marketing based on the physical goods, some of these strategies and theories have been adopted into the marketing of services. One

must bear in mind that marketing based on physical goods are basically production-oriented, that is the goods are produced to meet optimal production of goods in the factory, instead of marketing-oriented, where the customer's needs are met. This is due to failure to realize that service marketing is different from the marketing of physical goods by the very nature of the services itself. Services are different from physical goods in term of the following characteristics:

- 1) Services are immaterial and intangible, which cannot be seen, tasted, and felt before they are bought. Thus customers usually turn to tangible clues to evaluate services like place of service, people, price, "facilitating goods", and communication material (Gronroos, 1991; Kotler, 1994).
- 2) Services are frequently consumed, as they are produced and perishable. They cannot be manufactured, stored, distributed and sold at a later time. Instead the outcome of the process is an integral part of the service process which is consumed by the customers. In the buyer/seller relationship, the employee behavior of the seller organization is often an integral part of the service product and thus it is an important determinant of the buyer's perception of good service.
- 3) Services are activities, not things, although physical goods or things may be needed either to support or facilitate the service consumption (Gronroos, 1991).

This simultaneity of production and consumption (Carmen and Langeard, 1980; Gronroos, 1978; Regan, 1963; Upah, 1980) also leads to the necessity of multisite nature of most service companies. This creates a need for managers and management systems to control highly decentralized operations to meet a single set of service standards. As the buyer behavior itself exhibit variability, it is difficult to establish standards for the output of the services.

In the search for standards, there is a need to understand the support for the service encounter. There are three attributes of service management that need to be understood to enable the service encounter to be an effective one with the result of a satisfied customer (Schmenner, 1995).

1. Service task. The service task states why the service exists in the marketplace and what the customer truly values about the service. It is a statement that conveys the essence of what the service provides the customer, and thus provides both management and the workforce with a goal to achieve. This is normally dictated by the customer in how the service is delivered.
2. Service standards. Service standards define what is effective service provision to the customer. The standards are the controls, the guardians of quality and cost efficiency in the service firm. In the service industry, quality is defined as conformance to specifications as valued by customer.
3. The service delivery system. The service delivery system specifies how the service is produced, including how it is controlled for quality, cost, and customer satisfaction. The service delivery system needs to be synchronized with the service task and the service standards so that the service encounter remains an effective one.

The service delivery system can be one of four different types, that is, service factory, service shop, mass service and professional service. These are types of service operations in terms of distinct service processes and can be further differentiated in terms of labor intensity of the process and the degree of interaction with and customization of the service for the consumer. Some of the activities involved in the service delivery systems are:

1. inventory
2. transportation

3. warehousing
4. order transmission and processing
5. forecasting
6. production planning and control

In an article by Martin Christopher (1983), it was stated that research have indicated that delivery reliability is the primary element influencing the choice of supplier with stock availability and order cycle time being the other key elements.

The search for the effectiveness of a service encounter must begin with a clear understanding of the meaning of the word "effectiveness". The Chambers Dictionary (1993) defines effectiveness in the general sense as "having power to effect; causing something successful in producing a result or effect; powerful; serviceable". Effectiveness is a measure of the way which resources can be used in an organization; the judicious utilization of people, capital, marketing, research knowledge, production systems, and intangible assets (Johnson and Scholes, 1989). Hofer and Schendal (1986) hold that effectiveness is important because it is a determinant of a company's success and that it relates to satisfying the environment. They contend that effectiveness is the degree of correspondence between actual and desired outputs. Thus the effectiveness of a service delivery system, from above definition, is a measure of the company's ability to satisfying the environment with corresponding degree of actual and desired outputs.

In the semiconductor industry, the service part of the marketing strategy does not usually come on its own in the sense of offering pure services. In the semiconductor industry, services comes together with the goods in order to enhance its consumer appeal. *The more technologically sophisticated the generic product (e.g., cars and*

computers), the more dependent are its sales on quality and availability of its accompanying customer services (Levitt, 1972). The sales and marketing of semiconductor is an area of marketing that offers a type of goods and services mix that is in a continuum between that of pure services and that of physical goods. In this case, there is an absence of the “retail store experience”, that is needed in the physical goods services, during the offer of the mix of goods and service phase of the service encounter. However, the factors of the customers finding the goods/products they want, interacting with several “store” personnel and returning of goods/products must be considered as they influence the customer’s evaluations of the service quality. Thus the service quality of the firm offering to gain market share must ensure that the physical instruments of service support are in place to ensure a continued hold on the loyalty of customers. With the sophistication of the electronics industry, the level of competency in providing the technical, logistics and up-to-date information to customers are critical to a customer’s perceived service delivery. The most imaginative innovation and highest engineering skill mean little if the service rendered by first-line contact persons does not satisfy the expected service that a customer desires. Information vital to market promotion will be inhibited due to perceived inability of the marketer by the customers to support future development and consumption of the products that have been innovated at great expense by the company.

In the study of delivering service quality by Zeithaml, Parasuraman, and Berry (1985), it was found that there were four key discrepancies or gaps pertaining to executive perceptions of service quality and the tasks associated with service delivery to customers in order to achieve effective service-quality control. These four gaps,